

AUDIT NEWSLETTER 2004

City of Tucson – Tax Audit Section (520) 791-4681 Fax (520) 791-4344

December 2004

RIO NUEVO

HELP GET STATE TAX DOLLARS TO REVITALIZE DOWNTOWN TUCSON.

The Rio Nuevo District includes downtown and extends along east Broadway to Park Place Mall. Businesses are to report their state sales tax for locations in the Rio Nuevo District using the “PAD” county code line on their Arizona State tax return. The increment of the current state tax over the base year comes back to Rio Nuevo. You can call the Tax Audit Section (520-791-4681) to find out if your business is located in the Rio Nuevo District.

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Topics listed below are new items or problem areas found during audits. Please check with the State of Arizona for compliance to State law.

USE TAX

On July 1, 2003, Tucson imposed a 2% Use Tax on any business or individual who purchases tangible personal property for their own use (not for resale) on which no City tax has been paid. The vendor may be located outside Arizona or in an unincorporated area of Arizona. Individuals who are not in business are exempt from the tax on purchases of \$1,000 or less per item on items bought outside the city. Use tax is also due on the rental of tangible personal property on which an equivalent City tax has not been paid. For additional information go to <http://www.cityoftucson.org/finance/UseTax.html> or call the Tax Audit Section.

CONTRACTING

EXEMPT HEALTH CARE ORGANIZATIONS

When working for non-profit primary health care businesses, the income for materials installed can be exempted from tax. Labor charges would still be taxable. In order to take this exemption, one must determine if the customer is qualified for the health care exemption and then correctly identify the income from the sale of the materials. Qualified non-profit primary health care businesses receive an annual Arizona Department of Revenue or City of Tucson exemption letter. A copy of the letter should be kept in your files. The income from the materials must be separately stated in the contract, on the billing invoices, and in your books.

SPECULATIVE BUILDING

If you improve real property and sell it within 24 months of completion, you may be liable for tax as a speculative builder. The City of Tucson taxes speculative builders on the selling price of the improved real property less the original purchase price of the land and a standard 35% exemption. You can call the Tax Audit Section at 791-4681 for specific deductions relative to speculative building.

RENTAL - REAL PROPERTY

LICENSING FOR USE

The Tucson tax rate on income from non-residential real property rental is two percent (2%). The State of Arizona does not tax this activity. If you receive a payment for allowing the owner of amusement machines, pay telephones, or vending machines to put their equipment on your property, the payments are considered licensing-for-use income. Licensing-for-use income is taxable under the rental of real property activity.

Do you personally lease property to “your corporation”? If yes, the lease payments are taxable under the rental activity. Extra charges for cleaning, common area maintenance, forfeited security deposits, late payment charges, and utilities (that are not separately metered) are all taxable. Any real property taxes paid to the landlord or for the landlord are considered part of taxable rental income. Rentals to all governmental entities (except Davis Monthan Air Force Base) are taxable. Rentals to all non-profits are taxable except to non-profit primary healthcare facilities that provide the landlord with annual exemption letters from the Arizona Department of Revenue and the City of Tucson.

RETAIL

SALES FOR REALES

Sales for resale are sales of items to a person who is in the business of re-selling or renting the items to others, and is properly licensed to do so. Sales for resale are exempt from tax. For example, sales of materials that a contractor incorporates into a job are exempt from the tax. However, tools and consumables sold to a contractor are taxable because they are being used and not resold by the contractor.

ALL BUSINESSES

CONSUMABLE SUPPLIES

Sales of cleaners, deodorizing agents, fire restoration cleaners, degreasers, paint strippers, paint thinners, tile strippers, and other consumable products are taxable transactions. Customers who use these kinds of products in the ordinary course of their business can not purchase these items tax exempt (for resale).

OTHER ISSUES

City of Tucson tax is a Business Privilege Tax. The tax is the responsibility of the business. The business passes the tax onto its customers. Generally, tax is collected based on the business location on all retail activities. If a non-profit business makes a purchase from an in-city business, the Tucson tax will apply. Sales to qualified non-profit primary health care businesses would be exempt under the retail activity. If a county resident makes a purchase from an in-city business, the Tucson tax will apply. On contracting, telecommunications, and utility activities, the tax is based on the location of the customer (job). For other activities, see the specific Tucson Code Section.

DO YOU HAVE TAX QUESTIONS?

If you have tax questions, please call 791-4681, Monday through Friday from 8 a.m. until 5 p.m. Because the tax collector is not bound by oral advice, you may want to receive a written response to your question. To get a written response to your questions regarding unusual transactions, please send your **detailed** explanation of the transaction to:

Revenue Administrator
City of Tucson
PO Box 27210
Tucson, AZ 85726-7210

WEB PAGE: www.cityoftucson.org

This is the City of Tucson's home page. Explore the many interesting and informative pages for departments and other items. You can access the **Business Privilege (Sales) Tax Code** from at least two city departments, Finance and City Clerk's Office. From the home page, access "Departments" and "click" on Finance Department (www.cityoftucson.org/finance/). You will also find the Occupational License Tax Code Sections, Tax Information Brochures, Newsletters, Business Privilege Tax Return Forms, 17 Step-Business License Process, and other information and guides.

TAX SEMINARS

The following presentations are free. Please call us at 791-4681 to register. We will ask for your name and number of attendees (needed for seating and material planning).

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New in 2005, two seminars emphasizing the Construction Contracting activity. Both seminars will be held at the Main Library from 9:00 AM to 12:00 PM on February 10, 2005 and August 17, 2005.

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Seminars with emphasis towards licensing and reporting requirements are given on the dates and at the locations listed below. ADOR will also be speaking. Questions are welcome.

9:10 AM - 12:10 PM	9:00 AM - 12:00 PM
Wilmot Library	Main Library
<u>530 North Wilmot Road</u>	<u>101 North Stone Avenue</u>
January 13, 2005	March 24, 2005
May 12, 2005	July 14, 2005
September 8, 2005	November 10, 2005